

Minimum Sample Size vs Live Performance

Some students asked me: "I have hundreds of trades in my backtest, that should mean my backtest is statistically significant right? I made a ton in that backtest, thus I should be making a ton in real life right? I'm going to run the strategy live now!"

The answer to the former question is yes. The answer to the latter is usually no.

What Statistically Significant Backtests Mean

Case study

You backtested a trending strategy over a week. It had 1000 trades and made 20% returns with negligible drawdowns.

If you were to deploy it live, and on a ranging market. Do you think the strategy will return 20% a week?

The answer is almost a guaranteed no.

Key takeaway

Statistically significant backtests tell us that your backtests were reliable in telling you how your strategy worked for the test period. It does not directly tell you how it will perform in the future.

However, this does not mean that backtests are useless. We will cover backtesting in the next chapter "Understanding Your Robot's Behaviour: Backtesting!".